

# **Treasury Management Strategy Statement**

Minimum Revenue Provision Policy Statement  
and Annual Investment Strategy

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2019/2020

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# 1.INTRODUCTION

## 1.1 Background

### Treasury Management reporting

The Council is currently required to receive and approve, as a minimum, three main treasury reports each year, which incorporate a variety of policies, estimates and actuals.

- a. **Prudential and treasury indicators and treasury strategy** (this report) - The first, and most important report is forward looking and covers:
  - the capital plans, (including prudential indicators);
  - a minimum revenue provision (MRP) policy, (how residual capital expenditure is charged to revenue over time);
  - the treasury management strategy, (how the investments and borrowings are to be organised), including treasury indicators; and
  - an investment strategy, (the parameters on how investments are to be managed).
  
- b. **A mid-year treasury management report** – This is primarily a progress report and will update members on the capital position, amending prudential indicators as necessary, and whether any policies require revision. In addition, Finance & Performance Committee will receive quarterly update reports.
  
- c. **An annual treasury report** – This is a backward looking review document and provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy. This will be presented at Finance & Performance Committee

### Scrutiny

The above reports are required to be adequately scrutinised before being recommended to the Council. This role is undertaken by the Finance & Performance Committee.

## 1.2 Treasury Management Strategy for 2019/20

The strategy for 2019/20 covers two main areas:

### Capital issues

- the capital expenditure plans and the associated prudential indicators;
- the minimum revenue provision (MRP) policy.

### Treasury management issues

- the current treasury position;
- treasury indicators which limit the treasury risk and activities of the Council;
- prospects for interest rates;
- the borrowing strategy;
- policy on borrowing in advance of need;
- debt rescheduling;

- the investment strategy;
- creditworthiness policy; and
- the policy on use of external service providers.

These elements cover the requirements of the Local Government Act 2003, the CIPFA Prudential Code, MHCLG MRP Guidance, the CIPFA Treasury Management Code and MHCLG Investment Guidance.

### **1.3 Training**

The CIPFA Code requires the responsible officer to ensure that members with responsibility for treasury management receive adequate training in treasury management. This especially applies to members responsible for scrutiny. .

### **1.4 Treasury management consultants**

The Council uses Link Asset Services, Treasury solutions as its external treasury management advisors.

The Council recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon the services of our external service providers. All decisions will be undertaken with regards to all available information, including, but not solely, our treasury advisers.

It also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Council will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review.

.The scope of reporting investments within the Council's operations now includes both conventional treasury investments, (the placing of residual cash from the Council's functions), and more commercial type investments, such as investment properties. The commercial type investments require specialist advisers. The Council does not currently have any such investments.

## 2 THE CAPITAL PRUDENTIAL INDICATORS 2019/20 – 2021/22

The Council's capital expenditure plans are the key driver of treasury management activity. The output of the capital expenditure plans is reflected in the prudential indicators, which are designed to assist members' overview and confirm capital expenditure plans.

### 2.1 Capital expenditure

This prudential indicator is a summary of the Council's capital expenditure plans, both those agreed previously, and those forming part of this budget cycle. Members are asked to approve the capital expenditure forecasts:

Capital expenditure £m	2017/18 Actual	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate
Non-HRA	2,027	3,931	6,441	3,778	1,758
HRA	6,617	6,212	11,106	5,294	3,906
<b>Total</b>	<b>8,644</b>	<b>10,143</b>	<b>17,547</b>	<b>9,072</b>	<b>5,664</b>

Other long-term liabilities - The above financing need excludes other long-term liabilities, such as leasing arrangements that already include borrowing instruments. The primary leasing arrangements in place for this Council are Hinckley Hub and Heavy goods vehicles procured in 2018/19

The table below summarises the above capital expenditure plans and how these plans are being financed by capital or revenue resources. Any shortfall of resources results in a funding borrowing need.

Financing of capital expenditure £m	2017/18 Actual	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate
Capital receipts	830	1,429	5,176	2,054	1,353
Capital grants	1,322	1,078	2,410	765	751
Capital reserves	6,266	6,606	9,305	5,039	3,200
Revenue	0	0	0	0	0
<b>Net financing need for the year</b>	<b>226</b>	<b>1,030</b>	<b>656</b>	<b>1,214</b>	<b>360</b>

The crematorium project is the only project included in net financing need for commercial type activities.

Crematorium Project	2017/18 Actual	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate
Capital Expenditure	0	253,611	3217,350	1,584,660	0
Use of Reserves		0	0	0	
Financing costs	0	0	3,217,350	782,650	0
<b>Net financing need for the year</b>	<b>0</b>	<b>253,611</b>	<b>0</b>	<b>802,010</b>	<b>0</b>
Percentage of total net financing need %	<b>0</b>	<b>24.5</b>	<b>0</b>	<b>66.6</b>	<b>0</b>

## 2.2 The Council's borrowing need (the Capital Financing Requirement)

The second prudential indicator is the Council's Capital Financing Requirement (CFR). The CFR is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's indebtedness and so its underlying borrowing need. Any capital expenditure above, which has not immediately been paid for through a revenue or capital resource, will increase the CFR.

The CFR does not increase indefinitely, as the minimum revenue provision (MRP) is a statutory annual revenue charge which broadly reduces the indebtedness in line with each assets life, and so charges the economic consumption of capital assets as they are used.

The CFR includes any other long-term liabilities (e.g. PFI schemes, finance leases). Whilst these increase the CFR, and therefore the Council's borrowing requirement, these types of scheme include a borrowing facility by the lease provider and so the Council is not required to separately borrow for these schemes. The Council currently has £10.499m of such schemes within the CFR.

The Council is asked to approve the CFR projections below:

£m	2017/18 Actual	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate
<b>Capital Financing Requirement</b>					
CFR – non housing	35,851	35,832	35,141	34,990	33,941
CFR – housing	70,320	70,320	70,320	70,320	70,320
<b>Total CFR</b>	<b>106,171</b>	<b>106,152</b>	<b>105,461</b>	<b>105,310</b>	<b>104,261</b>
<b>Movement in CFR</b>		<b>-19</b>	<b>-691</b>	<b>-151</b>	<b>-1,049</b>

<b>Movement in CFR represented by</b>					
Net financing need for the year (above)		1,030	656	1,214	360
Less MRP/VRP and other financing movements		-1,049	-1,347	-1,365	-1,409
<b>Movement in CFR</b>		<b>- 19</b>	<b>- 691</b>	<b>-151</b>	<b>-1,049</b>

## 2.3 Core funds and expected investment balances

The application of resources (capital receipts, reserves etc.) to either finance capital expenditure or other budget decisions to support the revenue budget will have an ongoing impact on investments unless resources are supplemented each year from new sources (asset sales etc.). Detailed below are estimates of the year-end balances for each resource and anticipated day-to-day cash flow balances.

Year End Resources £000's	2017/18 Actual	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate
Fund balances / reserves	21,633	20,225	15,365	12,413	10,392
Capital receipts	4,734	2,289	3,917	2,851	2,520
Provisions	1,208	900	900	900	900
Grants/Contributions	2,939	2,940	2,941	2,942	2,943
<b>Total core funds</b>	<b>30,514</b>	<b>26,354</b>	<b>23,123</b>	<b>19,106</b>	<b>16,755</b>
Working capital*	<b>1,000</b>	<b>1,000</b>	<b>1,000</b>	<b>1,000</b>	<b>1,000</b>
Under/over borrowing**	22,389	18,972	18,092	17,200	16,270

<b>Expected investments</b>	<b>9,125</b>	<b>8,382</b>	<b>6,031</b>	<b>2,906</b>	<b>1,485</b>
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\*Working capital balances shown are estimated year-end; these may be higher mid-year

## 2.4 Minimum revenue provision (MRP) policy statement

The Council is required to pay off an element of the accumulated General Fund capital spend each year (the CFR) through a revenue charge (the minimum revenue provision - MRP), although it is also allowed to undertake additional voluntary payments if required (voluntary revenue provision - VRP).

MHCLG regulations have been issued which require the full Council to approve **an MRP Statement** in advance of each year. A variety of options are provided to councils, so long as there is a prudent provision. The Council is recommended to approve the following MRP Statement

For capital expenditure incurred before 1 April 2008 or which in the future will be Supported Capital Expenditure, the MRP policy will follow:

**Existing practice** - MRP will follow the existing practice outlined in former MHCLG Guidance. From 1 April 2008 for all unsupported borrowing (including PFI and finance leases) the MRP policy will be

- **Asset life method** – MRP will be based on the estimated life of the assets, in accordance with the regulations (this option must be applied for any expenditure capitalised under a Capitalisation Direction) (option 3); These options provide for a reduction in the borrowing need over approximately the asset's life.

There is no requirement on the HRA to make a minimum revenue provision but there is a requirement for a charge for depreciation to be made.

Repayments included finance leases are applied as MRP.

**MRP Overpayments** - A change introduced by the revised MHCLG MRP Guidance was the allowance that any charges made over the statutory minimum revenue provision (MRP), voluntary revenue provision or overpayments, can, if needed, be reclaimed in later years if deemed necessary or prudent. In order for these sums to be reclaimed for use in the budget, this policy must disclose the cumulative overpayment made each year. Up until the 31 March 2018, the total VRP overpayments were £116,666. This relates to the temporary borrowing incurred for build of the new leisure centre. It is recommended that this is reversed out in 2018/19 on the basis that the legal agreement for the sale of Middlefield site will be agreed.

### 3 BORROWING

The capital expenditure plans set out in Section 2 provide details of the service activity of the Council. The treasury management function ensures that the Council's cash is organised in accordance with the relevant professional codes, so that sufficient cash is available to meet this service activity and the Council's capital strategy. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of appropriate borrowing facilities. The strategy covers the relevant treasury / prudential indicators, the current and projected debt positions and the annual investment strategy.

#### 3.1 Current portfolio position

The overall treasury management portfolio as at 31 March 2018 and for the position as at 31 December 2018 is shown below for both borrowing and investments.

<b>TREASURY PORTFOLIO</b>				
	<b>Actual</b>	<b>Actual</b>	<b>Current</b>	<b>Current</b>
	<b>31.03.18</b>	<b>31.03.18</b>	<b>31.12.18</b>	<b>31.12.18</b>
	<b>£'000</b>	<b>%</b>	<b>£'000</b>	<b>%</b>
Treasury Investments				
Banks	2,582	17%	1,722	6%
Building Societies - unrated	9,800	64%	17,500	63%
Building Societies - rated	0	0%	8,509	31%
Local Authorities	3,000	20%	0	0%
<b>Total managed in House</b>	<b>15,382</b>	<b>100%</b>	<b>27,731</b>	<b>100%</b>
Treasury External Borrowings				
PWLB	75,952	100%	75,952	100%
<b>Total External Borrowings</b>	<b>75,952</b>	<b>100%</b>	<b>75,952</b>	<b>100%</b>
<b>Net treasury Investments/(Borrowings)</b>	<b>-60,570</b>	<b>0%</b>	<b>-48,221</b>	<b>0%</b>

The Council's forward projections for borrowing are summarised below. The table shows the actual external debt, against the underlying capital borrowing need, (the Capital Financing Requirement - CFR), highlighting any over or under borrowing.

<b>£m</b>	<b>2017/18 Actual</b>	<b>2018/19 Estimate</b>	<b>2019/20 Estimate</b>	<b>2020/21 Estimate</b>	<b>2021/22 Estimate</b>
<b>External Debt</b>					
Debt at 1 April	75,952	83,782	87,180	87,369	88,110
Expected change in Debt	0	1,030	656	1,214	360
Other long-term liabilities (OLTL)	7,830	2,669	0	0	0
Expected change in	0	- 301	- 467	- 473	- 479

OLTL					
Actual gross debt at 31 March	<b>83,782</b>	<b>87,180</b>	<b>87,369</b>	<b>88,110</b>	<b>87,991</b>
The Capital Financing Requirement	<b>106,171</b>	<b>106,152</b>	<b>105,461</b>	<b>105,310</b>	<b>104,261</b>
Under / (over) borrowing	<b>22,389</b>	<b>18,972</b>	<b>18,092</b>	<b>17,200</b>	<b>16,270</b>

Within the range of prudential indicators, there are a number of key indicators to ensure that the Council operates its activities within well-defined limits. One of these is that the Council needs to ensure that its gross debt does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2019/20 and the following two financial years. This allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not undertaken for revenue or speculative purposes.

The Head of Finance reports that the Council complied with this prudential indicator in the current year and does not envisage difficulties for the future. This view takes into account current commitments, existing plans, and the proposals in this budget report.

### 3.2 Treasury Indicators: limits to borrowing activity

**The operational boundary.** This is the limit beyond which external debt is not normally expected to exceed. In most cases, this would be a similar figure to the CFR, but may be lower or higher depending on the levels of actual debt and the ability to fund under-borrowing by other cash resources.

Operational boundary £m	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate
Debt/CFR	£106,171	£106,152	£105,461	£105,310
Expected Change in CFR	-19	-691	-151	-1,049
<b>Total</b>	<b>£106,152</b>	<b>£105,461</b>	<b>£105,310</b>	<b>£104,261</b>

**The authorised limit for external debt.** This is a key prudential indicator and represents a control on the maximum level of borrowing. This represents a legal limit beyond which external debt is prohibited, and this limit needs to be set or revised by the full Council. It reflects the level of external debt which, while not desired, could be afforded in the short term, but potentially is not sustainable in the longer term.

1. This is the statutory limit determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control either the total of all councils' plans, or those of a specific council, although this power has not yet been exercised.
2. The Council is asked to approve the following authorised limit:

Authorised limit £m	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate
Debt	£99,576	£103,352	£103,674	£100,104
Other long term liabilities	£10,171	£9,704	£9,231	£8,752
<b>Total</b>	<b>£109,747</b>	<b>£113,056</b>	<b>£112,905</b>	<b>£108,856</b>

Separately, the Council is also limited to a maximum HRA CFR through the HRA self-financing regime. This limit is currently:

HRA Debt Limit £m	2018/19 Estimate £000's	2019/20 Estimate £000's	2020/21 Estimate £000's	2021/22 Estimate £000's
HRA debt cap *	£71,915	£71,915	£71,915	£71,915
HRA CFR	£70,320	£70,320	£70,320	£70,320
HRA headroom	£1,595	£1,595	£1,595	£1,595

\* Abolition of Statutory HRA debt cap on 29/10/2018 however the cap has been kept in for comparative purposes. The Council can now borrow to affordable limits.

The table below summarises the capital financing requirement over the term of this strategy.

	2017-18 Estimate £000's	2018/19 Estimate £000's	2019/20 Estimate £000's	2020/21 Estimate £000's	2021/22 Estimate £000's
HRA CFR	£70,320	£70,320	£70,320	£70,320	£70,320
GF CFR	£35,851	£35,832	£35,141	£34,990	£33,941
Total CFR	£106,171	£106,152	£105,461	£105,310	£104,261
External Borrowing	£75,952	£76,982	£77,638	£78,852	£79,212
Other Long term Liabilities	£7,830	£10,198	£9,731	£9,258	£8,779
Total Debt	£83,782	£87,180	£87,369	£88,110	£87,991
Authorised Limit		£109,747	£113,056	£112,905	£108,856
Operational Boundary		£106,152	£105,461	£105,310	£104,261

### 3.3 Prospects for interest rates

The Council has appointed Link Asset Services as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. The following table gives our central view.

	Dec 18	Mar 19	Jun 19	Sep 19	Dec 19	Mar 20	Jun 20	Sep 20	Dec 20	Mar 21
BankRate %	0.75	0.75	1.00	1.00	1.00	1.25	1.25	1.25	1.50	1.50
3Months LIBIDS %	0.80	0.80	1.00	1.00	1.20	1.30	1.40	1.50	1.50	1.60
6Months LIBID%	0.90	1.00	1.20	1.30	1.40	1.50	1.60	1.70	1.70	1.80
12Months LIBIDS %	1.10	1.20	1.30	1.40	1.50	1.60	1.70	1.80	1.90	2.00
5 yr PWLB%	2.00	2.10	2.20	2.20	2.30	2.30	2.40	2.50	2.50	2.60
10yrPWLB %	2.50	2.50	2.60	2.60	2.70	2.80	2.90	2.90	3.00	3.00
25yrPWLB %	2.90	2.90	3.00	3.10	3.10	3.20	3.30	3.30	3.40	3.40

50yrPWL %	2.70	2.70	2.80	2.90	2.90	3.00	3.10	3.10	3.20	3.20
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The flow of generally positive economic statistics after the quarter ended 30 June meant that it came as no surprise that the MPC came to a decision on 2 August to make the first increase in Bank Rate above 0.5% since the financial crash, from 0.5% to 0.75%. Growth has been healthy since that meeting, but is expected to weaken somewhat during the last quarter of 2018. At their November meeting, the MPC left Bank Rate unchanged, but expressed some concern at the Chancellor's fiscal stimulus in his Budget, which could increase inflationary pressures. However, it is unlikely that the MPC would increase Bank Rate in February 2019, ahead of the deadline in March for Brexit. The next increase in Bank Rate is therefore forecast to be in May 2019, followed by increases in February and November 2020, before ending up at 2.0% in February 2022.

Economic and interest rate forecasting remains difficult with so many external influences weighing on the UK. The above forecasts, (and MPC decisions), will be liable to further amendment depending on how economic data and developments in financial markets transpire over the next year. Geopolitical developments, especially in the EU, could also have a major impact. Forecasts for average investment earnings beyond the three-year time horizon will be heavily dependent on economic and political developments.

### Investment and borrowing rates

- Investment returns are likely to remain low during 2019/20 but to be on a gently rising trend over the next few years.
- Borrowing interest rates have been volatile so far in 2018-19 and have increased modestly since the summer. The policy of avoiding new borrowing by running down spare cash balances has served well over the last few years. However, this needs to be carefully reviewed to avoid incurring higher borrowing costs in the future when authorities may not be able to avoid new borrowing to finance capital expenditure and/or the refinancing of maturing debt;
- There will remain a cost of carry, (the difference between higher borrowing costs and lower investment returns), to any new long-term borrowing that causes a temporary increase in cash balances as this position will, most likely, incur a revenue cost.

### 3.4 Borrowing strategy

The Council is currently maintaining an under-borrowed position. This means that the capital borrowing need (the Capital Financing Requirement), has not been fully funded with loan debt as cash supporting the Council's reserves, balances and cash flow has been used as a temporary measure. This strategy is prudent as investment returns are low and counterparty risk is still an issue that needs to be considered.

Against this background and the risks within the economic forecast, caution will be adopted with the 2019/20 treasury operations. The Head of Finance will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances:

- *if it was felt that there was a significant risk of a sharp FALL in long and short term rates, (e.g. due to a marked increase of risks around relapse into recession or of risks of deflation), then long term borrowings will be postponed, and potential rescheduling from fixed rate funding into short term borrowing will be considered.*
- *if it was felt that there was a significant risk of a much sharper RISE in long and short term rates than that currently forecast, perhaps arising from an acceleration in the rate of increase in central rates in the USA and UK, an increase in world economic activity, or a sudden increase in inflation risks, then the portfolio position will be re-appraised. Most likely, fixed rate funding will be drawn whilst interest rates are lower than they are projected to be in the next few years.*

Any decisions will be reported to the appropriate decision making body at the next available opportunity.

### **3.5 Policy on borrowing in advance of need**

The Council will not borrow more than or in advance of its needs purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be within forward approved Capital Financing Requirement estimates, and will be considered carefully to ensure that value for money can be demonstrated and that the Council can ensure the security of such funds.

Risks associated with any borrowing in advance activity will be subject to prior appraisal and subsequent reporting through the mid-year or annual reporting mechanism.

### **3.6 Debt rescheduling**

As short-term borrowing rates will be considerably cheaper than longer term fixed interest rates, there may be potential opportunities to generate savings by switching from long-term debt to short-term debt. However, these savings will need to be considered in the light of the current treasury position and the size of the cost of debt repayment (premiums incurred).

The reasons for any rescheduling to take place will include:

- the generation of cash savings and / or discounted cash flow savings;
- helping to fulfil the treasury strategy;
- enhance the balance of the portfolio (amend the maturity profile and/or the balance of volatility).

Consideration will also be given to identify if there is any residual potential for making savings by running down investment balances to repay debt prematurely as short term rates on investments are likely to be lower than rates paid on current debt.

All rescheduling will be reported to *Council*, at the earliest meeting following its action.

## 4 ANNUAL INVESTMENT STRATEGY

### 4.1 Investment policy – management of risk

The MHCLG and CIPFA have extended the meaning of ‘investments’ to include both financial and non-financial investments. This report deals solely with financial investments, (as managed by the treasury management team). Non-financial investments, essentially the purchase of income yielding assets, are covered in the Capital Strategy, (a separate report).

The Council’s investment policy has regard to the following: -

- MHCLG’s Guidance on Local Government Investments (“the Guidance”)
- CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2017 (“the Code”)
- CIPFA Treasury Management Guidance Notes 2018

The Council’s investment priorities will be security first, portfolio liquidity second and then yield, (return).

The above guidance from the MHCLG and CIPFA place a high priority on the management of risk. This authority has adopted a prudent approach to managing risk and defines its risk appetite by the following means: -

1. Minimum acceptable **credit criteria** are applied in order to generate a list of highly creditworthy counterparties. This also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the short term and long-term ratings.
2. **Other information:** ratings will not be the sole determinant of the quality of an institution; it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To achieve this consideration the Council will engage with its advisors to maintain a monitor on market pricing such as “**credit default swaps**” and overlay that information on top of the credit ratings.
3. **Other information sources** used will include the financial press, share price and other such information pertaining to the banking sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.
4. This authority has defined the list of **types of investment instruments** that the treasury management team are authorised to use. There are two lists in appendix 5.4 under the categories of ‘specified’ and ‘non-specified’ investments.
  - **Specified investments** are those with a high level of credit quality and subject to a maturity limit of one year.
  - **Non-specified investments** are those with less high credit quality, may be for periods in excess of one year, and/or are more complex instruments which require greater consideration by members and officers before being authorised for use.

5. **Lending limits**, (amounts and maturity), for each counterparty will be set through applying the matrix table in paragraph 4.2.
6. **Transaction limits** are set for each type of investment in 4.2.
7. This authority will set a limit for the amount of its investments which are invested for **longer than 365 days**, (see paragraph 4.4).
8. Investments will only be placed with counterparties from countries with a specified minimum **sovereign rating**, (see paragraph 4.3).
9. This authority has engaged **external consultants**, (see paragraph 1.5), to provide expert advice on how to optimise an appropriate balance of security, liquidity and yield, given the risk appetite of this authority in the context of the expected level of cash balances and need for liquidity throughout the year.
10. All investments will be denominated in **sterling**.
11. As a result of the change in accounting standards for 2018/19 under IFRS 9, this authority will consider the implications of investment instruments which could result in an adverse movement in the value of the amount invested and resultant charges at the end of the year to the General Fund. (In November 2018, the Ministry of Housing, Communities and Local Government, [MHCLG], concluded a consultation for a temporary override to allow English local authorities time to adjust their portfolio of all pooled investments by announcing a statutory override to delay implementation of IFRS 9 for five years commencing from 1.4.18.)

However, this authority will also pursue **value for money** in treasury management and will monitor the yield from investment income against appropriate benchmarks for investment performance, (see paragraph 4.5). Regular monitoring of investment performance will be carried out during the year.

## 4.2 Creditworthiness policy

The primary principle governing the Council's investment criteria is the security of its investments, although the yield or return on the investment is also a key consideration. After this main principle, the Council will ensure that:

- It maintains a policy covering both the categories of investment types it will invest in, criteria for choosing investment counterparties with adequate security, and monitoring their security. This is set out in the specified and non-specified investment sections below; and
- It has sufficient liquidity in its investments. For this purpose it will set out procedures for determining the maximum periods for which funds may prudently be committed. These procedures also apply to the Council's prudential indicators covering the maximum principal sums invested.

The Head of Finance will maintain a counterparty list in compliance with the following criteria and will revise the criteria and submit them to Council for approval as necessary. These criteria are separate to that which determines which types of investment instrument are either specified or non-specified as it provides an overall

pool of counterparties considered high quality which the Council may use, rather than defining what types of investment instruments are to be used.

Credit rating information is supplied by Link Asset Services, our treasury advisors, on all active counterparties that comply with the criteria below. Any counterparty failing to meet the criteria would be omitted from the counterparty (dealing) list. Any rating changes, rating Watches (notification of a likely change), rating Outlooks (notification of the longer term bias outside the central rating view) are provided to officers almost immediately after they occur and this information is considered before dealing. For instance, a negative rating Watch applying to counterparty at the minimum Council criteria will be suspended from use, with all others being reviewed in light of market conditions.

The criteria for providing a pool of high quality investment counterparties, (both specified and non-specified investments) is:

- Banks 1 - good credit quality – the Council will only use banks which:
  - i. are UK banks; and/or
  - ii. are non-UK and domiciled in a country which has a minimum sovereign Long Term rating of AA-
 and have, as a minimum, the following Fitch, Moody's and Standard & Poor's credit ratings (where rated):
  - i. Short Term – F1
  - ii. Long Term – A-
- Banks 2 – Part nationalised UK bank – Royal Bank of Scotland ring-fenced operations. This bank can be included provided it continues to be part nationalised or it meets the ratings in Banks 1 above.
- Banks 3 – The Council's own banker for transactional purposes if the bank falls below the above criteria, although in this case balances will be minimised in both monetary size and time invested.
- Bank subsidiary and treasury operation -. The Council will use these where the parent bank has provided an appropriate guarantee or has the necessary ratings outlined above.
- Building societies The Council will use all societies which:
  - i. Meet the ratings for banks outlined above;
  - or
  - ii. Have assets in excess of £500m;
  - or meet both criteria.
- Money Market Funds (CNAV LNVAV VNAV) - £9m
- UK Government (including gilts, Treasury Bills and the DMADF)
- Local authorities, parish councils etc.
- Supranational institutions
- Property Funds & Corporate Bonds. We may consider these funds if they meet the creditworthiness criteria. No decision will be made on the use of these funds without further Council approval.

**Use of additional information other than credit ratings.** Additional requirements under the Code require the Council to supplement credit rating information. Whilst the above criteria relies primarily on the application of credit ratings to provide a pool of appropriate counterparties for officers to use, additional operational market information will be applied before making any specific investment decision from the agreed pool of counterparties. This additional market information (for example Credit Default Swaps, negative rating Watches/Outlooks) will be applied to compare the relative security of differing investment counterparties.

**Time and monetary limits applying to investments.** The time and monetary limits for institutions on the Council's counterparty list are as follows (these will cover both specified and non-specified investments):

	<b>Fitch Long term Rating (or equivalent)</b>	<b>Money and/or % Limit</b>	<b>Transaction limit</b>	<b>Time Limit</b>
<b>Banks 1 higher quality</b>	<b>AA-</b>	<b>£14m</b>	<b>£5m</b>	<b>1 yr</b>
<b>Banks 1 medium quality</b>	<b>A+</b>	<b>£7m</b>	<b>£4m</b>	<b>1 yr</b>
<b>Banks 1 lower quality</b>	<b>A-</b>	<b>£9m</b>	<b>£4m</b>	<b>1 yr</b>
<b>Banks 1 Council's Own Banker</b>	<b>A-</b>	<b>£9m</b>	<b>£5m</b>	<b>1 yr</b>
<b>Banks 2 – part nationalised</b>	<b>A-</b>	<b>£7m</b>	<b>£4m</b>	<b>1yr</b>
<b>Limit 3 category – Council's banker (not meeting Banks 1)</b>		<b>£6m</b>	<b>£3m</b>	<b>1 yr</b>
<b>Other institutions limit</b>	<b>N/A</b>	<b>£6m</b>	<b>£3m</b>	<b>1 yr</b>
<b>DMADF (Central Government)</b>	<b>UK sovereign rating</b>	<b>unlimited</b>	<b>Unlimited</b>	<b>1 yr</b>
<b>Local authorities</b>	<b>N/A</b>	<b>£12m</b>	<b>£7m</b>	<b>1 yr</b>
	<b>Fund rating</b>	<b>Money and/or % Limit</b>		<b>Time Limit</b>
<b>Money Market Funds</b>	<b>AAA</b>	<b>£9m</b>	<b>£4m</b>	<b>liquid</b>

The proposed criteria for specified and non-specified investments are shown in Appendix 5.4 for approval.

### **UK banks – ring fencing**

The largest UK banks, (those with more than £25bn of retail / Small and Medium-sized Enterprise (SME) deposits), are required, by UK law, to separate core retail banking services from their investment and international banking activities by 1st January 2019. This is known as "ring-fencing". Whilst smaller banks with less than £25bn in deposits are exempt, they can choose to opt up. Several banks are very close to the threshold already and so may come into scope in the future regardless.

Ring-fencing is a regulatory initiative created in response to the global financial crisis. It mandates the separation of retail and SME deposits from investment banking, in order to improve the resilience and resolvability of banks by changing their structure. In general, simpler, activities offered from within a ring-fenced bank, (RFB), will be focused on lower risk, day-to-day core transactions, whilst more complex and “riskier” activities are required to be housed in a separate entity, a non-ring-fenced bank, (NRFB). This is intended to ensure that an entity’s core activities are not adversely affected by the acts or omissions of other members of its group.

While the structure of the banks included within this process may have changed, the fundamentals of credit assessment have not. The Council will continue to assess the new-formed entities in the same way that it does others and those with sufficiently high ratings, (and any other metrics considered), will be considered for investment purposes.

### 4.3 Other limits

Due care will be taken to consider the exposure of the Council’s total investment portfolio to non-specified investments, countries, groups and sectors.

- a) **Country limit.** The Council has determined that it will only use approved counterparties from the UK and from countries with a minimum sovereign credit rating of AA-

### 4.4 Investment strategy

**In-house funds.** Investments will be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 12 months). Greater returns are usually obtainable by investing for longer periods. While most cash balances are required in order to manage the ups and downs of cash flow where cash sums can be identified that could be invested for longer periods, the value to be obtained from longer term investments will be carefully assessed.

- If it is thought that Bank Rate is likely to rise significantly within the time horizon being considered, then consideration will be given to keeping most investments as being short term or variable.
- Conversely, if it is thought that Bank Rate is likely to fall within that time period, consideration will be given to locking in higher rates currently obtainable, for longer periods.

#### **Investment returns expectations.**

Bank Rate is forecast to increase steadily but slowly over the next few years to reach 2.00% by quarter 1 2022. Bank Rate forecasts for financial year ends (March) are:

- 2018/19 0.75%
- 2019/20 1.25%
- 2020/21 1.50%
- 2021/22 2.00%

The suggested budgeted investment earnings rates for returns on investments placed for periods up to about three months during each financial year are as follows:

	<b>Now</b>
2018/19	0.75%
2019/20	1.00%
2020/21	1.50%
2021/22	1.75%
2022/23	1.75%
2023/24	2.00%
Later years	2.50%

- The overall balance of risks to economic growth in the UK is probably neutral.
- The balance of risks to increases in Bank Rate and shorter term PWLB rates, are probably also even and are dependent on how strong GDP growth turns out, how slowly inflation pressures subside, and how quickly the Brexit negotiations move forward positively.

**Investment treasury indicator and limit** - total principal funds invested for greater than 365 days. These limits are set with regard to the Council's liquidity requirements and to reduce the need for early sale of an investment, and are based on the availability of funds after each year-end. The Council is asked to approve the following treasury indicator and limit:

#### Upper limit for principal sums invested for longer than 365 days £0

For its cash flow generated balances, the Council will seek to utilise its business reserve instant access and notice accounts, money market funds and short-dated deposits, in order to benefit from the compounding of interest.

#### **4.5 Investment risk benchmarking**

The purpose of the benchmark is that officers will monitor the current and trend position and amend the operational strategy to manage risk as conditions change. Any breach of the benchmarks will be reported, with supporting reasons in the mid-year or Annual Report.

Security -.

Liquidity – in respect of this area the Council seeks to maintain:

- Bank overdraft - £0.250m (if required)
- Liquid short term deposits of at least £1m available with a week's notice.
- Weighted average life benchmark is expected to be 0.5, with a maximum of 1 year.

Yield - local measures of yield benchmarks are

- Investments – internal returns above the 30 day LIBID rate.

#### **4.6 End of year investment report**

At the end of the financial year, the Council will report on its investment activity as part of its Annual Treasury Report.

The fund manager's view on interest rates and opportunities for gilts / bonds is as follows:

## **5 APPENDICES**

(These can be appended to the report or omitted as required)

1. Prudential and treasury indicators and MRP statement
2. Treasury Management practice
3. Treasury management scheme of delegation
4. The treasury management role of the section 151 officer

## 5.1 THE CAPITAL PRUDENTIAL AND TREASURY INDICATORS 2019/20 – 2021/22 AND MRP STATEMENT

The Council's capital expenditure plans are the key driver of treasury management activity. The output of the capital expenditure plans is reflected in the prudential indicators, which are designed to assist members' overview and confirm capital expenditure plans.

### 5.1.1 Capital expenditure

Note: A detailed capital programme is included within the capital programme report

Capital expenditure £000's	2017/18 Actual	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate
Non-HRA	£2,027	£3,931	£6,441	£3,778	£1,759
HRA	£6,617	£6,213	£11,106	£5,294	£3,906
<b>Total</b>	<b>£8,644</b>	<b>£10,144</b>	<b>£17,547</b>	<b>£9,072</b>	<b>£5,665</b>

### 5.1.2 Affordability prudential indicators

The previous sections cover the overall capital and control of borrowing prudential indicators, but within this framework prudential indicators are required to assess the affordability of the capital investment plans. These provide an indication of the impact of the capital investment plans on the Council's overall finances. The Council is asked to approve the following indicators:

#### a. Ratio of financing costs to net revenue stream

This indicator identifies the trend in the cost of capital, (borrowing and other long term obligation costs net of investment income), against the net revenue stream.

%	2018/19 Estimate %	2019/20 Estimate %	2020/21 Estimate %	2021/22 Estimate %
Non-HRA	9.98	9.29	10.08	9.54
HRA	23.77	24.69	23.76	22.66

The estimates of financing costs include current commitments and the proposals in this budget report.

#### b. HRA ratios

These ratios summarise the level of debt against the level of income. As the current HRA debt is being paid of net revenue increases.

£	2017/18 Actual	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate
HRA debt £m	£70,300	£70,300	£67,358	£64,416	£61,474
HRA debt cap	£71,915	£71,915	£71,915	£71,915	£71,915

<b>HRA revenues £m</b>	<b>£13,674</b>	<b>£12,783</b>	<b>£12,586</b>	<b>£12,964</b>	<b>£13,353</b>
<b>Ratio of debt to revenues %</b>	<b>525.93</b>	<b>562.57</b>	<b>571.37</b>	<b>554.73</b>	<b>538.57</b>

<b>£</b>	<b>2017/18 Actual</b>	<b>2018/19 Estimate</b>	<b>2019/20 Estimate</b>	<b>2020/21 Estimate</b>	<b>2021/22 Estimate</b>
<b>HRA debt £m</b>	£70,300	£70,300	£67,358	£64,416	£61,474
<b>Number of HRA dwellings</b>	3,307	3,305	3,246	3,252	3,222
<b>Debt per dwelling £</b>	<b>£21.26</b>	<b>£21.27</b>	<b>£20.75</b>	<b>£19.81</b>	<b>£19.08</b>

### 5.1.3 Maturity structure of borrowing

Maturity structure of borrowing. These gross limits are set to reduce the Council's exposure to large fixed rate sums falling due for refinancing, and are required for upper and lower limits

The Council is asked to approve the following treasury indicators and limits:

<b>Maturity structure of borrowing 2019/20</b>		
	<b>%</b>	<b>£m</b>
Under 12 months	3.87%	£2.941
12 months to 2 years	3.87%	£2.941
2 years to 5 years	11.62%	£8.824
5 years to 10 years	19.36%	£14.707
10 years to 20 years	38.73%	£29.414
20 years to 30 years	11.62%	£8.824
30 years to 40 years	4.34%	£3.300
40 years to 50 years	6.58%	£5.000

## 5.2 TREASURY MANAGEMENT PRACTICE

The MHCLG issued Investment Guidance in 2018, and this forms the structure of the Council's policy below. These guidelines do not apply to either trust funds or pension funds which operate under a different regulatory regime.

The key intention of the Guidance is to maintain the current requirement for councils to invest prudently, and that priority is given to security and liquidity before yield. In order to facilitate this objective the guidance requires this Council to have regard to the CIPFA publication Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes. This Council adopted the Code on 01/04/2018 and will apply its principles to all investment activity. In accordance with the Code, the Head of Finance has produced its treasury management practices (TMPs). This part, TMP 1(1), covering investment counterparty policy requires approval each year.

**Annual investment strategy** - The key requirements of both the Code and the investment guidance are to set an annual investment strategy, as part of its annual treasury strategy for the following year, covering the identification and approval of following:

- The strategy guidelines for choosing and placing investments, particularly non-specified investments.
- The principles to be used to determine the maximum periods for which funds can be committed.
- Specified investments that the Council will use. These are high security (i.e. high credit rating, although this is defined by the Council, and no guidelines are given), and high liquidity investments in sterling and with a maturity of no more than a year.
- Non-specified investments, clarifying the greater risk implications, identifying the general types of investment that may be used and a limit to the overall amount of various categories that can be held at any time.

The investment policy proposed for the Council is:

**Strategy guidelines** – The main strategy guidelines are contained in the body of the treasury strategy statement.

**Specified investments** – These investments are sterling investments of not more than one-year maturity, or those which could be for a longer period but where the Council has the right to be repaid within 12 months if it wishes. These are considered low risk assets where the possibility of loss of principal or investment income is small. These would include sterling investments which would not be defined as capital expenditure with:

1. The UK Government (such as the Debt Management Account deposit facility, UK treasury bills or a gilt with less than one year to maturity).
2. Supranational bonds of less than one year's duration.
3. A local authority, parish council or community council.
4. Pooled investment vehicles (such as money market funds) that have been awarded a high credit rating by a credit rating agency. For category 4 this covers pooled investment vehicles, such as money market funds, rated AAA by Standard and Poor's, Moody's and / or Fitch rating agencies.
5. A body that is considered of a high credit quality (such as a bank or building society). For category 5 this covers bodies with a minimum Short Term rating of F1 (or the equivalent) as rated by Standard and Poor's, Moody's and / or Fitch rating agencies.

Within these bodies, and in accordance with the Code, the Council has set additional criteria to set the time and amount of monies which will be invested in these bodies why are included in the body of the report.

**Non-specified investments** –are any other type of investment (i.e. not defined as specified above). The identification and rationale supporting the selection of these other investments and the maximum limits to be applied are set out below. Non specified investments would include any sterling investments with:

	<b>Non Specified Investment Category</b>	<b>Limit (£ or %)</b>
a.	<b>The Council's own banker</b> if it fails to meet the basic credit criteria. In this instance balances will be minimised as far as is possible.	£6m
b.	<b>Building societies not meeting the basic security requirements under the specified investments.</b> The operation of some building	£7m

	societies does not require a credit rating, although in every other respect the security of the society would match similarly sized societies with ratings. The Council may use such building societies which have a minimum asset size of £500m, but will restrict these type of investments to £7m	
c.	Any <b>bank or building society</b> that has a minimum long term credit rating of A, for deposits with a maturity of greater than one year (including forward deals in excess of one year from inception to repayment).	£6m
d.	Any <b>non-rated subsidiary</b> of a credit rated institution included in the specified investment category. These institutions will be included as an investment category subject to a limit of £2m for a period of 6 months	£2m

**The monitoring of investment counterparties** - The credit rating of counterparties will be monitored regularly. The Council receives credit rating information (changes, rating watches and rating outlooks) from Link Asset Services as and when ratings change, and counterparties are checked promptly. On occasion ratings may be downgraded when an investment has already been made. The criteria used are such that a minor downgrading should not affect the full receipt of the principal and interest. Any counterparty failing to meet the criteria will be removed from the list immediately by the Head of Finance, and if required new counterparties which meet the criteria will be added to the list.

### 5.3 TREASURY MANAGEMENT SCHEME OF DELEGATION

#### (i) Council

- receiving and reviewing reports on treasury management policies, practices and activities;
- approval of annual strategy.
- approval of/amendments to the organisation's adopted clauses, treasury management policy statement and treasury management practices;
- budget consideration and approval;

#### (ii) Finance & Performance Committee

- approval of the division of responsibilities;
- receiving and reviewing regular monitoring reports and acting on recommendations;
- reviewing the treasury management policy and procedures and making recommendations to the responsible body.

#### (iii) SLT / Head of Finance

- reviewing the treasury management policy and procedures and making recommendations to the responsible body.

## 5.4 THE TREASURY MANAGEMENT ROLE OF THE SECTION 151 OFFICER

### The S151 (responsible) officer

- recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance;
- submitting regular treasury management policy reports;
- submitting budgets and budget variations;
- receiving and reviewing management information reports;
- reviewing the performance of the treasury management function;
- ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function;
- ensuring the adequacy of internal audit, and liaising with external audit;
- recommending the appointment of external service providers.
- ensuring that the capital planning is prudent, sustainable, affordable and prudent in the long term and provides value for money
- ensuring that due diligence has been carried out on all treasury and non-financial investments and is in accordance with the risk appetite of the authority
- ensure that the authority has appropriate legal powers to undertake expenditure on non-financial assets and their financing
- ensuring the proportionality of all investments so that the authority does not undertake a level of investing which exposes the authority to an excessive level of risk compared to its financial resources
- ensuring that an adequate governance process is in place for the approval, monitoring and ongoing risk management of all non-financial investments and long term liabilities
- ensuring that members are adequately informed and understand the risk exposures taken on by an authority
- ensuring that the authority has adequate expertise, either in house or externally provided, to carry out the above